

Advice From the Trenches: A View From Inside the POG

**Wolfgang Opitz, Deputy Director
Office of Financial Management**

Faced with a \$2.4 billion budget shortfall, Washington's Governor Gary Locke adopted a new and dramatic way to set priorities for his 2003-05 Biennial Budget Proposal. This became known as the Priorities of Government – or POG – approach.

After establishing ten key results to deliver to Washington's citizens – and agreeing that we would live within our means to accomplish as much as possible of each – we set about the daunting task of prioritizing our government's activities within each area.

By focusing on activities – not programs or agencies – we created prioritized lists *across* the entire government for each result area, proposing to fund those activities that contributed most to each result. Though ever mindful of the added stress and strain on people, information systems, relationships and the political environment, we forged ahead to deliver a Governor's budget that clearly shows what we will do, and what we can no longer afford to do, for each result area.

As Deputy Director of Washington's Office of Financial Management, I was privileged to have a role in this important new approach. Here's a thumbnail sketch of a few things we learned about what it took to make it successful.

Leadership Counts!

Any change of this magnitude that so fundamentally affects the way priorities are set in a state government budget demands strong, committed and resilient leadership. In our case, Governor Locke, through his chief of staff and his director of financial management, owned the process from the start – and adhered to it throughout. His commitment made it clear that we were serious about adopting this approach and helped energize those who did the work. In addition, leadership opportunities appeared at all levels of the process, whether guiding the staff team, chairing and facilitating results teams, or working diligently to inform cabinet agencies as best we could within the time available. Without effective leadership at each level of the process, we would not have successfully delivered on the Governor's new approach.

Run It Like a Construction Project

With an “owner” as committed as our Governor, we needed strong commitments of time and effort from our “design committee” – which for us was an array of business and government leaders who guided the project. We relied on a “general contractor” to keep things organized, get key people to make critical decisions in a timely way, and reconcile differences as they arose. A knowledgeable “superintendent” organized and deployed staff, matched the new approach with the old, and kept everything working day-to-day. And, a high-energy, sophisticated “yard boss” made split second decisions about complex

issues while keeping the data flowing, staff engaged, and tasks on schedule. These key players not only had to work together closely, but also relied on a well-crafted blueprint.

Get Professional Help

Our “architect” was Peter Hutchinson from Public Strategies Group who brought a vision of what was possible, designed a path to get there, and used a wide range of tools and skills to bring disparate groups together. Getting this help was invaluable, because someone in the process needs to challenge the status quo. Exerting external effort at the right time to push the agenda forward, and overcoming obstacles as they arose, led to better results. As is true of any major construction project, though, the architect was on-site at critical times to make adjustments in the scale and scope – and to help guide the vision through to a successful conclusion.

Take the Enterprise-Wide View

In the past when trying to decide how to manage large changes to government budgets, we have relied on our individual agencies to make reduction proposals to a central budget office, where those proposals are evaluated, scrubbed, and sorted into a set of recommendations. But this familiar approach to “solving” a budget problem leaves us focused on what to cut, not what we keep. It accepts, with little question, most of the status quo level of spending. Moreover, it leads quickly to discussions about how fairly we’ve treated each agency’s programs in the cut exercise. All of this became unrewarding after a number of years and insufficient to address effectively significant budget problems. Instead, we established ten key crosscutting results, identified the activities in our government that fit each result area, and empowered teams to prioritize the activities by their contribution to the results.

In health care for example had we done things the old way we would have ended up with budget cuts that appeared fair from an agency-by-agency perspective, but would not have produced the best results. Our past approach would have answered the question “what is fair to all the agencies and programs concerned?”

Rather, we chose to answer the question “what role should the state play in the purchase and provision of health care for its citizens?” As a result, we ended up not cutting public health at all. We scaled back some optional services and made Medicaid more efficient, without cutting eligibility. Mostly, we chose to limit eligibility in the state’s Basic Health Plan for the working poor so that 60,000 childless adults would no longer be covered. An agency-specific approach would likely have resulted in a more even distribution of the budget pain, but would not have been as clear about our priorities.

Use the right building blocks

Traditional agency and program budgets were just too large and vague for this approach. Instead we used activities as the building blocks of the budget—the discrete functions or

services agencies provide. We suggested that as agencies defined activities they consider how their employees describe their jobs to their families and friends. On behalf of our state's citizens, we wanted to know, "What do you do? For whom? What does it cost? What does it accomplish?" Sorting these discrete activities by result area helped reveal the functions that reinforced others, functions that duplicated others, and functions housed in places that didn't make sense. It also enabled us to better understand and explain to the public everything that the state budget buys.

Believe it or Not, Lower Your Standards!

We found the phrase "progress not perfection" to be a good motto. As financial management, budget, and analysis professionals we all value high quality information. We want our data systems to support our work, and want information to meet our expectations for accuracy and comprehensiveness. While laudable, these goals can get in the way of advancing a major change in the way we make decisions. Not that we disregard good data or key facts, but we need to keep a good sense for when we have *sufficient* information upon which to base a decision. This boils down to not letting the perfect become the enemy of the good. But it also means that we need to do the best we can with what we can get within the time and resources available instead of waiting until we have everything we think we need.

In an ideal world, an activity based costing model would have been tested, data definitions agreed upon, systems built, instructions issued, training conducted, and analysis performed. With limited time, however, we chose to get the best activity data we could from our agencies, assemble the data into coherent groups around each of our ten results areas, and use it to make the best-informed decisions possible. When we do this process again, we will use what we learned to inform our next steps where we will build the systems, do the training, and issue the instructions that take us back to our high standards.

Do the Homework

As with most things of this scale, thoughtful planning and preparation were critical to our success. For the budget we would build in the fall, we started in the spring by gathering initial activity inventories from our agencies, practicing with the data, and iterating between agency staff and our analysts. We also laid out schedules and calendars well in advance so that we could make appropriate space for new committees, teams and the critical learning that all the participants would need to undertake. But most important, we prepared ourselves by coming to grips with the size of the problem and with the need for a radically different approach. Then, we shared our information and analysis with everyone we could think of so to get a wider understanding of the depth of the problem.

It's Not Just a Budget Exercise: Involve Communications, Legislative Liaison, and Policy Staff at the Start

We made sure early on that key communication and policy staff, as well as agency leadership and external participants, were included in the process. If treated solely as a budget process without proper consideration of the size and complexity of this new task, too few people would have been involved until too late in the process. By involving communication and policy staff early and often throughout the process, we were able to move discussions forward within a shorter period of time and do so more effectively.

A key challenge of this very different budget was to prepare the legislature and the public to receive it. This is something apart from the traditional spin effort. Not only had we used a different approach to develop the budget, we used new and differently formatted documents to present the budget and the choices made about services to keep and cut. Keeping communications and external relations staff involved from the outset, ensured that we talked about the approach consistently and effectively. They also helped us to better understand and serve the information needs of the legislature, the media and the public as they tried to analyze this new budget.

Use Time to Your Advantage

As we looked at our budget problem, measured its size, and settled on the approach we would take to solve it, we quickly discovered that the ten weeks we had from late August through early November would pass very quickly. We had to make the most of them. But we also realized that had we allocated ten months to developing and implementing this approach we probably would have backed off before we finished. The shorter time line created urgency – and finality – in the decision process. This added pressure, but also added pace and focus. While we undertook a clearly unreasonable task without the time and information resources that would have made us more comfortable, without the time pressure we may not have carried it through to the successful release of the Governor’s budget proposal in December 2002.

Take Care of the Staff Who Do the Work

All of this could not be done without a serious commitment from very dedicated, talented, and sophisticated staff. Our agency participants, and especially our in-house budget and policy staff, were called upon to do an immense amount of hard work in a short time. Though we are always proud of our willing and able staff, the new nomenclature and the new approach was disorienting for even the most seasoned analysts. But, they rose to the occasion by leading the results teams, organizing their work and plowing ahead – even when things got tough.

By planning ahead, assuring that the “owners” needs were met, and by clearing the decks as much as possible we were able to make the process more manageable. While still requiring many extra hours, and a lot of extra effort, the pay off was large. Taking stock at the end, we were able to look back on a successful effort that made a major contribution to the public debate in Washington.